CROSSMARK
GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	4.22%	-5.51%
S&P 500	5.93%	-15.08%
NASDAQ	8.11%	-27.13%
RUSSELL 2000	3.82%	-15.86%
RUSSELL 1000 GROWTH	7.67%	-24.72%
RUSSELL 1000 VALUE	4.61%	-5.79%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	9.24%	-37.23%
CONSUMER DISCRETIONARY	5.96%	-29.35%
CONSUMER STAPLES	2.39%	-2.75%
ENERGY	2.00%	75.04%
FINANCIALS	5.77%	-6.75%
HEALTHCARE	1.78%	-4.36%
INDUSTRIALS	4.71%	-4.68%
INFORMATION TECHNOLOGY	10.07%	-23.17%
MATERIALS	7.74%	-8.86%
REAL ESTATE	7.09%	-23.43%
UTILITIES	1.49%	-2.75%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	4.69%	-18.24%
MSCI ACWI EX U.S.	4.16%	-19.57%
MSCI EAFE	5.77%	-17.79%
MSCI EM	0.53%	-25.95%

SUMMARY:

U.S. equities were higher last week (S&P 500 +5.9%) more than erasing the prior week's declines. A major factor in the upside was an outsized Thursday rally in the wake of a softer-than-expected report for October CPI. The softer inflation report sparked a flurry of dovish-leaning Fedspeak. Best performers were technology (+10.0%), communication services (+9.2%) and materials (+7.7%); worst performers were utilities (+1.4%), healthcare (+1.8%) and energy (+2.0%).

KEY TAKEAWAYS:

1. The U.S. CPI rose 0.4% m/m in October (7.7% y/y), with the core measure up 0.3% m/m (6.3% y/y). Both measures were 0.2% better than expected. While this is a nice improvement (and we think solidifies that we have seen peak inflation), inflation is still too high and the Fed still has work to do.
2. The Fed's likely move to a more moderate pace of rate hikes (50bps instead of 75 in December) is motivated by slower growth and tighter financial conditions but restrained by continued pressure from strong inflation data.
3. The Fed's rate increase path since they started in March (raising Fed funds from 0 to 3 ¾%) is the fastest pace in history. The Fed is simultaneously attempting to reduce its balance sheet by $95 billion per month. This in effect is a double tightening.
4. The October update of the OECD's Composite Leading Indicators suggests that global growth continues to lose momentum. Elevated inflation, rising interest rates and the equity selloff are weighing on major economies around the world.
5. Commercial banks are tightening lending standards across nearly all loan categories which is a natural consequence of a deteriorating economic outlook.
6. The biggest 3Q earnings story has been the lowering of 2023 estimates, now $232 down from a summer peak of $252, but still above our $200 guess.
7. Republicans underperformed in the U.S. midterm election. Although they will take the House, the seats gained are well short of a "red wave" scenario. Similarly, although it is still too close to call, it is likely the Democrats will retain control of the Senate.
8. The key takeaway for investors from the election is government gridlock over the next two years, meaning neither the Democrats or the Republicans will dominate D.C. Sadly, attention will quickly turn to the 2024 presidential election.
9. Due to higher interest rates, the interest bill on the national debt next year will likely be above $1 trillion.
10. Remember: Since 1942, during each of the 3-month, 6-month, and 12-month periods following each of the 20 midterm elections, the S&P 500 was up on average by 7.6%, 14.1%, and 14.9%. (Of the 60 observations, only three of them were negative.)

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	2.29%	-14.10%
BLOOMBERG U.S. CORP HIGH YIELD	1.20%	-12.20%
BLOOMBERG U.S. GOV/ CREDIT	2.18%	-14.74%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.07%	0.97%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	6.57%	-21.90%
COMMODITIES (DJ)	-0.44%	19.59%
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	10.13%	-31.89%
CURRENCIES (DB G10 CURRENCY FUTURE)	-3.40%	3.78%

A RALLY IN STOCKS AND BONDS – IS IT SUSTAINABLE?

Equity markets are rebounding aided by hopes that the Fed will soon slow and eventually end the rate-hiking cycle. The forward markets are even discounting a lowering in U.S. rates by the end of 2023. As we have noted for some time, a necessary condition for a risk-on phase in stocks is for bond markets to stay calm. Thankfully, there are good prospects for a pause in the cyclical advance in bond yields. Corporate earnings expectations are eroding as investors grapple with slowing global growth. The main bearish force for equity markets this year – intense de-rating pressures – has recently dissipated and should be on hold for as long as bond yields are not rising.

The cycle is not over and, most likely, there will be another upleg in bond yields in 2023. Nevertheless, against what has been an extremely difficult year for all asset markets, tactical opportunities will occasionally develop and nimble investors should take advantage of such episodes, such as currently is the case. There is intense pressure on investors to try to reverse some of this year's huge, broad-based losses, opening the door for increased risk-taking heading into year-end. The recent softening in the U.S. dollar has been supportive of a better global financial market backdrop. The strong dollar was inflationary for other economies, adding to the pressure on their central banks to tighten and weighed on global asset markets.

The U.S. economy is still in decent shape and the Fed will push policy rates higher in the coming months (albeit less aggressively), so we doubt that the dollar is set to depreciate meaningfully. However, any improvement in overseas growth prospects would be conducive to weakening the overvalued and overbought U.S. dollar.

Global growth momentum continues to slow, with PMI indexes on the weak side of neutral. Global trade growth is decelerating, as the prior boom in U.S. import demand has cooled and as pandemic-related spending unwinds and China stubbornly sticks with its economy-restraining Covid-zero policy. Importantly, the relentless rise in the global cost of capital this year will weigh on growth in 2023.

Investors initially responded negatively to the better-than-expected performance of the Democrats in the U.S. mid-term elections last week. Nevertheless, gridlock in Washington is virtually inevitable over the next two years, i.e. until the presidential elections in 2024. The outcome in the Senate is still unclear and likely awaits a December 6th run-off in Georgia. The House is responsible for funding the government, so investors should expect significant tension between House Republicans and the Biden Administration.

CONCLUSION:

A pause in the cyclical bond yield advance is underway, providing relief for all asset markets. We doubt that yields will decline substantially, despite oversold conditions as a global recession is unlikely. U.S. inflation pressures will ease for a time, but a return to 2% is not likely unless monetary policy tightens more than is discounted or growth is much weaker than we envision. While a further year-end rally is possible, conditions for a sustained upturn in stocks is not likely to develop until there is more visibility on inflation and earnings.

Data from Bloomberg, as of 11/11/2022.